

**Report To:** Cabinet

**Date of Meeting:** 29 January 2024

**Report Title:** Future Internal Audit Arrangements (2024-25 Onwards)

**Report By:** Kit Wheeler  
Chief Finance Officer

**Key Decision:** Yes

**Classification:** Open

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### **Purpose of Report**

To agree the arrangements for the Internal Audit Service for Hastings Borough Council from 2024/25 onwards.

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### **Recommendations**

- 1) Cabinet agrees that the Orbis partnership is approved to provide the management of the Internal Audit Service for the 2024/25 and 2025/26 Financial years from April 1<sup>st</sup> 2024 and delegated decision to the Chief Legal Officer to enter into agreement on behalf of Hastings Borough Council.**

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## Reasons for Recommendations

1. Following the retirement of the long-standing Chief Auditor in April 2023 from Hastings Borough Council, the Internal Audit team has been under the interim management and supervision of the Orbis partnership (which currently includes East Sussex County Council, Surrey County Council, Brighton and Hove City Council and Horsham District Council) following Cabinet approval back in June 2023 for this financial year (2023/24).
2. Given the key role that Internal Audit plays in providing independent, objective assurance advice that adds value to, and improves an organisations operation, it is imperative that a fully resourced and experienced Audit team is in place for the 2024-25 financial year.

## Introduction

3. The Internal audit function supports the organisation in achieving its objectives by bringing a systematic, disciplined approach to the assessment and improvement of the organisation's risk management, control, and governance processes.
4. The *Public Sector Internal Audit Standards*, which apply the Chartered Institute of Internal Auditors' international standards to the UK public sector, set out a range of attributes that define and govern the role of the internal audit function.
5. Table 1 Summarises these attributes.

<b>Purpose, authority and responsibility</b>	The purpose, authority and responsibility of the internal audit activity must be formally defined in an internal audit charter.
	The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval.
	The mandatory nature of the standards must be recognised in the internal audit charter. The chief audit executive should discuss these standards with senior management and the board.
<b>Independence and objectivity</b>	The internal audit activity must be independent and internal auditors must be objective in performing their work.
	The chief audit executive must report to a level within the organisation that allows the internal audit activity to fulfil its responsibilities. The chief audit executive must confirm to the board, at least annually, the organisational independence of the internal audit activity.
	The chief audit executive must communicate and interact directly with the board.
	Internal auditors must have an impartial, unbiased attitude and avoid any conflict of interest.
	If independence or objectivity is impaired in fact or appearance, the details of the impairment must be disclosed to appropriate parties.
<b>Proficiency and due professional care</b>	Engagements must be performed with proficiency and due professional care.
	Internal auditors must possess the knowledge, skills and other competencies needed to perform their individual responsibilities.
	Internal auditors must apply the care and skill expected of a reasonably prudent and competent internal auditor.
	Internal auditors must enhance their knowledge, skills and other competencies through continuing professional development.
<b>Quality assurance and improvement programme</b>	The chief audit executive must develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity.
	The quality assurance and improvement programme must include both internal and external assessments.
	The chief audit executive must communicate the results of the quality assurance and improvement programme to senior management and the board.

6. The partnership has acted as an advisor to the Council for the current financial year with great benefits being seen throughout the organisation and in particular through the Audit Committee.

7. They have provided the necessary experience and supervision required for this financial year, whilst also assisting with the implementation plan for the agreed changes highlighted in the Value for Money Audit report 2020-21 presented by the Councils External Auditors Grant Thornton at Audit Committee on 12<sup>th</sup> January 2023 where a number of recommendations were made.
8. There has subsequently been a further Value for Money report by Grant Thornton for the 2021/22 & 2022/23 financial years, which once again highlighted the need for improvements in the Internal Audit and governance function of the Council (prior to Orbis taking over the management). It was noted by Grant Thornton that Orbis's involvement is one that our External Auditors are supportive of continuing in the future.
9. The transfer of the management of the Internal Audit Services to Orbis has allowed the service to improve resilience, give the Council access to further audit specialisms and allow the service to be benchmarked from specialists the Council could not afford in operating alone for this financial year. It has also allowed for non-audit services to be moved back into the relevant departments which was another key recommendation in the Auditors report.
10. As part of the Councils ongoing commitment to training staff and Councillors, Orbis has also provided in house training for the Audit Committee, Councillors and Senior Leadership Team, in order for them to better understand the role of the Audit Committee itself, as well as the role of the Internal Audit Team.
11. The two remaining members of the Internal Audit team have continued to provide the 'local' service, whilst being supervised and overseen by the Orbis Partnership management Team.
12. Hastings Borough Council would like to place on record its thanks to the Orbis team as well as the Internal Audit team itself for all the hard work and support it has provided to date and the improvements that have been made.
13. It is now imperative that a more longer term arrangement for the provision of Internal Audit service to provide not only the Internal Audit staff stability and clarity about their own future, but also to provide assurance to the Council and our external auditors that we as a Council see this as a priority area of need that we have addressed accordingly.

## Legal Impact & Responsibilities

14. For Internal Audit the basis of the relationship with Orbis would continue in the same way as the interim arrangements were agreed which is to be one of customer and supplier. The Council will do this by using Section 101 of the LGA 1972.
15. This section of the Act allows a local authority to discharge any of its functions by another local authority and through Section 1 of the LA (Goods and Services) Act 1970, where a local authority can enter into an agreement for the provision by another local authority of any administrative or professional services.
16. The agreement would be between Hastings Borough Council and one of the partner authorities e.g. East Sussex County Council. We would expect the agreement would reference that a named Head of Internal Audit was responsible for carrying out functions on behalf of and therefore accountable to Hastings Borough Council and attendance at all Audit Committee meetings.
17. The Hastings Borough Council Chief Auditor is required to give an annual opinion to the Authority, on the adequacy and effectiveness of the Authority's risk management, control, and governance processes (The Annual Report and Opinion).
18. This assurance is required in support of the Section 151 Officers responsibilities under the Local Government Act 1972 as the statutory Section 151 Officer to the Authority, which require the Section 151 Officer to make arrangements for the proper administration of the Authority's financial affairs.
19. This assurance is also required in support of the Monitoring Officers responsibility for reviewing annually the effectiveness of, compliance with, the Authority's Local Code of Corporate Governance.

## Financial Impact

20. The estimated budget for this agreement for 2024/25 and 2025/26 is **£183,600** per annum, which represents a saving to Hastings Borough Council of **£24,000** per annum compared to the service remaining 'in house' for the same period of time.
21. Given the financial position the Council finds itself in, it is anticipated that these savings would contribute to some of the larger 'Transformational / Shared services' savings previously agreed by Council in December 2023.

## Staffing Impact

22. The two remaining members of the Hastings Borough Council Internal Audit team have been exemplary in how they have embraced working under new management, as well as working in a different way compared to previously.

23. It is expected that as part of the new agreement the current members of HBC staff will be transferred under TUPE (Transfer of Undertakings (Protection of Employment) Regulations 2006' and its amendment in 2014) to the Orbis partnership.

## Timetable of Next Steps

Please include a list of key actions and the scheduled dates for these:

Action	Key milestone	Due date (provisional)	Responsible
CAP	Agree Report and Recommendations	16th January 2024	Chief Finance Officer / Lead Member for Finance
Cabinet	Approve Report and Recommendations	29 <sup>th</sup> January 2024	Chief Finance Officer / Lead Member for Finance

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## Wards Affected

All

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## Policy Implications

Equalities and Community Cohesiveness	No
Crime and Fear of Crime (Section 17)	No
Risk Management	Yes
Environmental Issues & Climate Change	No
Economic/Financial Implications	Yes
Human Rights Act	No
Organisational Consequences	Yes
Local People's Views	No
Anti-Poverty	No
Legal	No

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## Additional Information

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## Officer to Contact

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